

## **Appendix A**

### **Summary of Refund Owed to Ratepayers Pacific Bell Intrastate Regulated Operations Phase 2A**

	<b>1997 Sharable Earnings Owed to Ratepayers</b>	<b>1998 Sharable Earnings Owed to Ratepayers</b>
Refund Amount	\$0	\$27,987,927
Interest Factor for 1998 (one half of principal x one half of 10% annual interest rate) <sup>1</sup>	—	1.0250
Interest Factor (10% annual rate compounded monthly from 1/1/1999 through 12/31/2003) <sup>1</sup>	—	1.6453
<b>Total Refund Assuming 10% Interest<sup>2</sup></b>	<b>\$0</b>	<b>\$47,199,912</b>

**Note 1:** Interest factor for 1998 and the monthly compounding of interest in 1999 and subsequent years is based on the guidance provided by (1) D.89-10-031, Ordering Paragraph 16, and (2) D.88-09-028, Ordering Paragraph 4.

**Note 2:** Appendix A assumes a rate of interest of 10%. The actual rate of interest will be determined by the Commission in Phase 2B of this proceeding.

## Appendix B

### Summary of Sharable Earnings Pacific Bell Intrastate Regulated Operations Phase 2A

		1997	1998	1999
1.	Adopted Net Operating Income	\$644,575,328	\$1,207,791,899	\$1,201,983,083
2.	Adopted Rate Base	\$10,057,145,000	\$10,214,121,454	\$10,095,974,666
3.	Rate of Return	6.41%	11.82%	11.91%
4.	Sharing Trigger	11.50%	11.50%	N/A
5.	ROR above Trigger	0.00%	0.32%	N/A
6.	Total Sharable Earnings: ROR above Trigger Times Adopted Rate Base (Row 5 x Row 2)	\$0	\$33,167,932	--
7.	Ceiling Rate of Return (15%)	15%	15%	--
8.	Sharable Earnings over Ceiling ROR ((Row 3 - Row 7) x Row 2)	\$0	\$0	--
9.	Sharable Earnings Between Trigger and Ceiling (Row 6 - Row 8)	\$0	\$33,167,932	--
10.	Ratepayer Portion (30%) of Sharable Earnings over Ceiling (Row 8 x 30%)	\$0	\$0	--
11.	Ratepayer Portion (50%) of Sharable Earnings between Trigger and Ceiling (Row 9 x 50%)	\$0	\$16,583,966	--
12.	Total Ratepayer Portion of Sharable Earnings (Row 10 + Row 11)	\$0	\$16,583,966	--
13.	Tax Gross-up Factor (1/(1-0.40746))	168.76%	168.76%	--
14.	<b>Ratepayer Amount With Gross-up (Row 12 x Row 13)</b>	<b>\$0</b>	<b>\$27,987,927</b>	<b>--</b>

## Appendix C

### Financial Summary of Adopted Adjustments Pacific Bell Intrastate Regulated Operations Phase 2A

		1997	1998	1999	Reference
1.	Net Operating Income Reported by Pacific	\$652,499,328	\$922,472,419	\$962,198,083	Exhibit Phase 2A: 400, p. 11.
2.	Adopted Adjustments: <b>Phase 2A</b>	(\$7,924,000)	\$285,319,480	\$239,785,000	Appendix D of today's Decision.
4.	Adopted Net Operating Income	\$644,575,328	\$1,207,791,899	\$1,201,983,083	
5.	Rate Base Reported by Pacific Bell	\$10,057,145,000	\$10,170,675,000	\$9,963,603,000	Exh. Phase 2A: 404, Attch. 11-21.
6.	Adopted Adjustments: <b>Phase 2A</b>	-	\$43,446,454	\$132,371,666	Appendix E of today's Decision.
8.	Adopted Rate Base	\$10,057,145,000	\$10,214,121,454	\$10,095,974,666	
9.	Rate of Return Reported by Pacific Bell	6.49%	9.07%	9.66%	Exhibit Phase 2A: 400, p. 11.
12.	<b>Adopted Rate of Return</b>	<b>6.41%</b>	<b>11.82%</b>	<b>11.91%</b>	Line 4/Line 8

**Appendix D****Summary of Adopted Adjustments to Net Operating Income (NOI) - Pacific Bell Intrastate Regulated Operations  
Phase 2A**

Adopted Adjustments to NOI <sup>1</sup>		1997 <sup>1</sup>	1998 <sup>1</sup>	1999 <sup>1</sup>	Total
<b><u>Phase 2A</u></b>					
					References to Phase 2A Decision except as noted.
1. Pension Trust Fund Withdrawal	-	-	\$40,737,000	\$40,737,000	Exhibit Phase 2A: 409, Table 7 of 7
2. SFAS 106 - Regulatory Asset Write-Off	-	\$149,765,000	-	\$149,765,000	Appendix F
3. SFAS 106 - VEBA 3 to VEBA 5 Transfer	\$5,829,000	\$35,559,000	-	\$41,388,000	Appendix H, Lines 7 & 14
4. SFAS 106 - VEBA 3 Contributions <sup>2</sup>	-	\$41,557,480	\$3,147,000	\$44,704,480	Appendix I, Lines 14 & 30
5. Income Tax Flow Through - Phase 2A Issues	(\$13,753,000)	\$58,438,000	\$195,901,000	\$240,586,000	Appendix J, Column L
6. <b>Total Phase 2A</b>	<b>(\$7,924,000)</b>	<b>\$285,319,480</b>	<b>\$239,785,000</b>	<b>\$517,180,480</b>	

**Note 1:** All amounts are after-tax (normalized), except for the adjustment for flow-through tax accounting, which represents the effect of using flow-through tax accounting instead of normalized tax accounting with respect to Phase 2A issues that do not result in an audit adjustment.

**Note 2:** No adjustment to TBO amortiz. exp. for 1997 because the SFAS 106 costs recognized for CPUC purposes during 1997 equaled tax-deductible contributions (which exceeded the SFAS 106 accrual), making it unnecessary to revise SFAS 106 costs reported during 1997 to reflect the corrected TBO.

## Appendix E

### Summary of Adopted Adjustments to Rate Base Pacific Bell Intrastate Regulated Operations Phase 2A

Adopted Adjustments to Rate Base	1997	1998	1999	Total	Reference
<b><u>Phase 2A</u></b>					
Accumulated Deferred Income Tax (Note 1)	\$0	\$43,446,454 (Note 2)	\$132,371,666 (Note 3)	\$175,818,120	See footnotes 1, 2, and 3 below.
Total Phase 2A	\$0	\$43,446,454	\$132,371,666	\$175,818,120	

**Note 1:** All of the Phase 2A adjustment to accumulated deferred income tax relates to the CHCF-B. The source of the information is Overland Exhibit Phase 2A: 404, Volume 2, Attachment 9-10.

**Note 2:**  $43,446,454 = ((110,252,000 - 0)/2) * 0.78813$

**Note 3:**  $132,371,666 = ((222,880,000 - 110,252,000)/2) * 0.79471$

## **Appendix F**

### **CALCULATION OF THE 1998 WRITE-OFF OF THE PBOP REGULATORY ASSET**

	<b><u>Amounts in</u></b> <b><u>\$000's</u></b>	<b><u>Reference</u></b>
Total Intrastate Regulated PBOP Cost Claimed by		
1. Pacific Bell in 1998 (Including the Write Off of the PBOP Regulatory Asset)	\$559,942	Exhibit 2A: 404, Volume 2, Page 7-27, Table 7-8
2. Plus: TBO Correction	<u>\$2,148</u>	Note 1, Line 18
3. Corrected PBOP Costs Claimed by Pacific Bell	\$562,090	Line 1 + Line 2
4. PBOP Tax-Deductible Contribution Claimed by Pacific Bell in 1998 (Including VEBA 3 Transfer)	(239,205)	Note 2, Line 25
5. Regulated Asset Write-Off	\$322,885	Line 3 + Line 4
6. Less: TBO Adjustment for Expensing of VEBA 3 Contributions in 1989 and 1990	(31,871)	Appendix I, Line 15 (See Note 3)
7. Less: Reduction to PBOP Reg. Asset for VEBA 3 Contributions Included in 1993 TBO Write-Off	(\$38,264)	Appendix I, Line 25 (See Note 3)
8. Subtotal	\$252,751	Line 5 + Line 6 + Line 7
9. Tax Factor	0.59254	(1 - .40746 (Combined Fed. and State Tax))
10. Normalized After-Tax Regulatory Asset Write-Off	<u><u>\$149,765</u></u>	Line 8 x Line 9

#### **Note 1**

11. CPUC - TBO Adjustment	(\$12,708)	Exhibit 2A: 404, Volume 2, Attachment 7 - 7
12. Intrastate Correction Per Pacific Bell	<u>0.8043</u>	Exhibit. Phase 2A: 307, p. 25, Lines 1 - 15; and Exhibit Phase 2A: 404, Vol. 2, Attach. 7-7
13. Corrected CPUC - TBO Adjustment	(\$10,221)	Line 11 x Line 12
14. Difference	\$2,487	Line 11 - Line 13
15. Regulated Factor	0.9409	Exhibit 2A: 404, Attachment 7 - 7
16. Regulated Amount	\$2,340	Line 14 x Line 15
17. Expense Factor	0.9180	Exhibit 2A: 404, Attachment 7-7
18. Amount to Correct TBO	<u><u>\$2,148</u></u>	Line 16 x Line 17

#### **Note 2**

19. Pacific Bell Tax-Deductible Contribution - 1998	\$236,788	Exhibit 2A: 404, Attachment 7-7
20. VEBA 3 to VEBA 5 Transfer - 1998	<u>\$79,300</u>	Exhibit Phase 2A: 307, p. 30, Line 1. See Note 3.
21. Total Contribution Claimed by Pacific Bell	\$316,088	Line 19 + Line 20
22. Intrastate Factor	0.8043	Exhibit Phase 2A: 404, Attachment 7-7
23. Intrastate Amount	\$254,230	Line 21 x Line 22
24. Regulated Factor	0.9409	Exhibit Phase 2A: 404, Attachment 7-7
25. Intrastate Regulated Amount	<u><u>\$239,205</u></u>	Line 23 x Line 24

#### **Note 3**

To avoid double counting, the write-off of the PBOP regulatory asset is reduced by (i) the VEBA 3 transfer in 1998, and (ii) the effect of the VEBA 3 contributions (made in 1989 and 1990) on the TBO amortization expense, the TBO write-off in 1993, and the PBOP reg. asset write-off in 1998. In Appendix D, the effects of the VEBA 3 transfer and VEBA 3 contributions on Pacific's NOI are listed separately from the write-off of the PBOP reg. asset.

## **Appendix G**

### **Calculation of Pacific Bell's SFAS 106 Z-Factor in 1997 and 1998**

The SFAS 106 Z-Factor Is Based on D.92-12-015, OP 8, which Limited the Z-Factor to the Lesser of (i) SFAS 106 Accrual Less PAYGO Costs, or (ii) Tax-Deductible Contributions to PBOP Trusts.

<b><u>1997 Z-Factor</u></b>	<b><u>Intrastate Regulated Amounts in 000's</u></b>	<b><u>Reference</u></b>
1. Annual SFAS 106 Cost	224,610	Note 3, Line 21 <b>See also Note 2.</b>
2. PAYGO Costs	129,593	Note 5, Line 37
3. Tax-Deductible Contributions (Excludes VEBA 3 Transfers)	224,610	Exhibit Phase 2A: 404, Vol. 2, Attach. 7-6 <b>See also Note 9.</b>
4. Authorized Z-Factor = Lesser of (i) Annual SFAS 106 Cost minus PAYGO, or (ii) Contributions	95,017	Line 1 - Line 2 <b>See Note 1 for Caveat.</b>
5. Actual Z-Factor Implemented by Pacific	99,500	D.98-10-026, 82 CPUC 2d 335, 366
6. Difference Between Authorized and Actual Z-Factor	(4,483)	Line 4 - Line 5

  

<b><u>1998 Z-Factor</u></b>	<b><u>000's</u></b>	<b><u>Reference</u></b>
7. Annual SFAS 106 Cost	179,193	Note 4, Line 30 <b>See also Note 2.</b>
8. PAYGO Costs	132,671	Note 6, Line 44
9. Tax-Deductible Contributions (Excludes VEBA 3 Transfers)	179,193	Exhibit Phase 2A: 404, Vol. 2, Attach. 7-7 <b>See also Note 9.</b>
10. Authorized Z-Factor = Lesser of (i) Annual SFAS 106 Cost minus PAYGO, or (ii) Contributions	46,522	Line 7 - Line 8 <b>See Note 1 for Caveat.</b>
11. Actual Z-Factor Implemented by Pacific	99,500	D.98-10-026, 82 CPUC 2d 335, 366
12. Difference Between Authorized and Actual Z-Factor	(52,978)	Line 11 - Line 10

#### **Note 1: Calculated Z-Factors May Be Too High**

The Z-Factors calculated by this Appendix might be too high because they include amortization of Pacific's PBOP Regulatory Asset (see **Note 10** for caveat), and the Reg. Asset contained costs that Pacific was not allowed to recover via the Z-Factor (see **Appendix I, Note 3**). The Phase 2A record is not sufficient to determine: (i) what portion of Pacific's Reg. Asset was composed of costs that could not be recovered via the Z-Factor, (ii) if Pacific improperly included any such costs in its Z-Factor, and (iii) if any such costs are in the Z-Factors calculated by this Appendix.

#### **Note 2: Annual SFAS 106 Cost**

Annual SFAS 106 cost = (annual SFAS 106 accrual) - (capitalized part of SFAS 106 accrual) + (depreciation of previously capitalized SFAS 106 accruals). Appendix G assumes that annual SFAS 106 costs include amortization of the PBOP Reg. Asset to the extent tax-deductible contributions to PBOP trusts exceed the annual SFAS 106 cost. (See **Notes 1 and 10** for caveats.) Thus, when there is a PBOP Reg. Asset and tax-deductible contributions exceed the annual SFAS 106 cost (before amortiz. of the Reg. Asset), the annual SFAS 106 cost equals tax-deductible contributions (except contributions in excess of the annual SFAS 106 cost, including amortiz. of the Reg. Asset, can not be recognized as an expense). In 1997 and 1998, Pacific had a large Reg. Asset and its contributions exceeded its SFAS 106 costs. Thus, as shown in Notes 3 and 4 below, Pacific's annual SFAS 106 costs in 1997 and 1998 equaled its tax-deductible contributions.

<b><u>Note 3: 1997 Annual SFAS 106 Cost</u></b>	<b><u>000's</u></b>	<b><u>Reference</u></b>
13. Intrastate Regulated SFAS 106 Accrual	188,107	Exhibit Phase 2A: 404, Vol. 2, Attach. 7-6
14. Capitalization Factor	0.9180	Exhibit Phase 2A: 404, Vol. 2, Attach. 7-6
15. SFAS 106 Accrual Net of Capitalization	172,682	Line 13 x Line 14
16. Plus: Depreciation of Capitalized SFAS 106 Accruals	8,185	Exhibit Phase 2A: 404, Vol. 2, Attach. 7-6
17. Plus: Correction to TBO	2,148	Exhibit Phase 2A: 307, p. 25, Lines 1 -15; Appendix F, Line 18
18. Less: TBO Reduction for VEBA 3 Contributions	(5,312)	Appendix I, Line 12
19. Net SFAS 106 Cost	177,704	Line 15 + Line 16 + Line 17 + Line 18
20. Tax-Deductible Contributions (Excludes VEBA 3 Transfers)	224,610	Exhibit Phase 2A: 404, Vol. 2, Attach. 7-6 <b>See Note 9.</b>
21. Annual SFAS 106 Cost: Higher of (i) Net SFAS 106 Cost, or (ii) Tax-Deductible Contributions	224,610	Line 20 See <b>Note 2</b> for explanation and <b>Note 11</b> for caveat.

<b><u>Note 4: 1998 Annual SFAS 106 Cost</u></b>	<b><u>000's</u></b>	<b><u>Reference</u></b>
22. Intrastate Regulated SFAS 106 Accrual	165,311	Exhibit Phase 2A: 404, Vol. 2, Attach. 7-7
23. Capitalization Factor	0.9180	Exhibit Phase 2A: 404, Vol. 2, Attach. 7-7
24. SFAS 106 Accrual Net of Capitalization	151,755	Line 22 x Line 23
25. Plus: Depreciation of Capitalized SFAS 106 Accruals	8,185	Exhibit Phase 2A: 404, Vol. 2, Attach. 7-7
26. Plus: Correction to TBO	2,148	Exhibit Phase 2A: 307, p. 25, Lines 1 -15; Appendix F, Line 18
27. Less: TBO Reduction for VEBA 3 Contributions	(5,312)	Appendix I, Line 12
28. Net SFAS 106 Cost	156,777	Line 24 + Line 25 + Line 26 + Line 27
29. Tax-Deductible Contributions (Excludes VEBA 3 Transfers)	179,193	Exhibit Phase 2A: 404, Vol. 2, Attach. 7-7 <b>See Note 9.</b>
30. Annual SFAS 106 Cost: Higher of (i) Net SFAS 106 Cost, or (ii) Tax-Deductible Contributions	179,193	Line 29 See <b>Note 2</b> for explanation and <b>Note 11</b> for caveat.

<b><u>Note 5 - 1997 PAYGO Costs</u></b>	<b><u>000's</u></b>	<b><u>Reference</u></b>
31. PAYGO Costs	178,100	Exhibit Phase 2A: 307, p. 30
32. Intrastate Factor	0.8043	Exhibit Phase 2A: 404, Attach. 7-6
33. Regulated Factor	0.9409	Exhibit Phase 2A: 404, Attach. 7-6
34. Expense Factor	0.9180	Exhibit Phase 2A: 404, Attach. 7-6
35. Pre-Tax Intrastate Regulated PAYGO Costs	123,728	Line 31 x Line 32 x Line 33 x Line 34
36. PAYGO Depreciation	5,865	Note 7, Line 49 <b>See Note 9.</b>
37. Total PAYGO Costs	129,593	Line 35 + Line 36

<b><u>Note 6 - 1998 PAYGO Costs</u></b>	<b><u>000's</u></b>	<b><u>Reference</u></b>
38. PAYGO Costs	181,200	Exhibit Phase 2A: 307, p. 30
39. Intrastate Factor	0.8043	Exhibit Phase 2A: 404, Attach. 7-7
40. Regulated Factor	0.9409	Exhibit Phase 2A: 404, Attach. 7-7
41. Expense Factor	0.9180	Exhibit Phase 2A: 404, Attach. 7-7
42. Pre-Tax Intrastate Regulated PAYGO Costs	125,882	Line 38 x Line 39 x Line 40 x Line 41
43. PAYGO Depreciation	6,790	Note 8, Line 54 <b>See Note 9.</b>
44. Total PAYGO Costs	132,671	Line 42 + Line 43



<u><b>Note 7 - 1997 PAYGO Depreciation</b></u>	<u><b>000's</b></u>	<u><b>Reference</b></u>
45. SFAS 106 Costs Before Depreciation	172,682	Exhibit Phase 2A: 404, Attachment 7-6
46. SFAS 106 Depreciation	8,185	Exhibit Phase 2A: 404, Attachment 7-6
47. Depreciation Factor	0.0474	Line 46 Divided by Line 45
48. PAYGO Costs Before Depreciation	123,728	Line 35
49. PAYGO Depreciation - <b>See Note 9</b>	<u>5,865</u>	Line 47 x Line 48

<u><b>Note 8 - 1998 PAYGO Depreciation</b></u>	<u><b>000's</b></u>	<u><b>Reference</b></u>
50. SFAS 106 Costs Before Depreciation	151,755	Exhibit Phase 2A: 404, Attachment 7-7
51. SFAS 106 Depreciation	8,185	Exhibit Phase 2A: 404, Attachment 7-7
52. Depreciation Factor	0.0539	Line 51 Divided by Line 50
53. PAYGO Costs Before Depreciation	125,882	Line 42
54. PAYGO Depreciation - <b>See Note 9</b>	<u>6,790</u>	Line 52 x Line 53

**Note 9 - Capitalization/Non-Capitalization of PAYGO Costs and Contributions**

For the sake of consistency, both the SFAS 106 costs and PAYGO costs used to calculate the Z-Factor are treated as if a portion of these costs are capitalized and depreciated. In contrast, pursuant to today's decision, none of the tax-deductible contributions used to calculate the Z-Factor are treated as if a portion of the contributions are capitalized and depreciated.

**Note 10 - Eligibility of PBOP Regulatory Asset for Z-Factor Recovery**

This Appendix's calculation of Z-Factors for 1997 & 1998 assumes that amortization of the PBOP Reg. Asset was eligible for Z-Factor recovery. (See **Note 1** for caveat.) This assumption may be wrong and should be evaluated in Phase 3B. In particular, D.92-12-015, OP 8, states that the Z-Factor should be based on the current year's SFAS 106 accrual. The current year's accrual must, by definition, exclude amortiz. of the Reg. Asset. Decision 97-04-043 states that the Z-Factor was limited to a one-time change in PBOP costs equal to the difference between SFAS 106 costs and PAYGO costs in 1993. (71 CPUC 2d 653, 665, 671.) The only adjustments to the Z-Factor were to be future reductions to the Z-Factor to avoid a utility windfall as the difference between SFAS 106 costs and PAYGO costs declined over time. (Id., 668-69, 671.) Decision 97-04-043 does not (i) address if the PBOP Reg. Asset qualifies for Z-Factor recovery (and it might not), or (ii) state that the Z-Factor would provide enough revenues to recover the Reg. Asset.

## Appendix H

### ADJUSTMENT TO PACIFIC BELL'S NOI FOR NON-TAX-DEDUCTIBLE TRANSFERS OF ASSETS FROM THE VEBA 3 PBOP TRUST TO THE VEBA 5 PBOP TRUST

	<u>Amounts in 000's</u>	<u>Reference</u>
<b><u>1997</u></b>		
1. VEBA 3 to 5 Transfer	\$13,000	Pacific Exhibit Phase 2A: 307, p. 30, Line 1
2. Intrastate Factor	<u>0.80430</u>	Overland Exhibit Phase 2A: 404, Attachment 7-6
3. Intrastate Portion	\$10,456	Line 1 x Line 2
4. Regulated Factor	<u>0.94090</u>	Overland Exhibit Phase 2A: 404, Attachment 7-6
5. Intrastate Regulated	\$9,838	Line 3 x Line 4
6. Tax Factor	<u>0.59254</u>	(1 - .40746 (Combined Fed. And State Tax))
7. After Tax VEBA 3 to 5 Transfer	<u><u>\$5,829</u></u>	Line 5 x Line 6 (Note 1)
<b><u>1998</u></b>		
8. VEBA 3 to 5 Transfer	\$79,300	Pacific Exhibit Phase 2A: 307, p. 30, Line 1
9. Intrastate Factor	<u>0.80430</u>	Overland Exhibit Phase 2A: 404, Attachment 7-7
10. Intrastate Portion	\$63,781	Line 8 x Line 9
11. Regulated Factor	<u>0.94090</u>	Overland Exhibit Phase 2A: 404, Attachment 7-7
12. Intrastate Regulated	\$60,012	Line 10 x Line 11
13. Tax Factor	<u>0.59254</u>	(1 - .40746 (Combined Fed. And State Tax))
14. After Tax VEBA 3 to 5 Transfer	<u><u>\$35,559</u></u>	Line 12 x Line 13
<b><u>1999 (Note 2)</u></b>		
15. VEBA 3 to 5 Transfer	\$89,900	Exhibit Phase 2A: 307, page 30, line 1
16. Intrastate Factor	<u>0.80430</u>	Exhibit Phase 2A: 404, Attachment 7-8
17. Intrastate Portion	\$72,307	Line 15 x Line 16
18. Regulated Factor	<u>0.94090</u>	Exhibit Phase 2A: 404, Attachment 7-8
19. Intrastate Regulated	68,033	Line 17 x Line 18
20. Tax Factor	<u>0.59254</u>	(1 - .40746 (Combined Fed. And State Tax))
21. After Tax VEBA 3 to 5 Transfer	<u><u>\$40,312</u></u>	Line 19 x Line 20
<b><u>Effect of 1997 VEBA 3 Transfer on Costs in 1998</u></b>		
22. Increase in Size of PBOP Reg. Asset in 1997	\$5,829	Line 7 and Note 1
23. Increase in Write-Off of Reg. Asset in 1998	\$5,829	Line 7 and Note 1

**Note 1:** Decreasing Pacific's allowed SFAS 106 costs in 1997 by the amount of the VEBA 3 transfer during that year has the effect of increasing the size of (1) Pacific's PBOP regulatory asset in 1998 by the amount of the VEBA 3 transfer in 1997, and (2) the PBOP regulatory asset write-off in 1998 by the amount of the VEBA 3 transfer in 1997. Thus, the decrease in Pacific's allowable SFAS 106 costs in 1997 is exactly offset by an increase in the PBOP regulatory asset write-off in 1998. However, because today's decision requires the 1998 write-off to be recorded below the line, the increase in the size of the write-off caused by the VEBA 3 transfer in 1997 has no effect on NOI in 1998. Hence, the effect of the VEBA 3 transfer in 1997 on the write-off in 1998 is not included in the write-off shown in Appendices D and F.

**Note 2:** There is no adjustment to Pacific's NOI for VEBA 3 transfers in 1999 because of the finding reached in today's decision that the amount of PBOP costs recognized for regulatory accounting purposes in 1999 should equal Pacific's SFAS 106 accrual in 1999 regardless of Pacific's actual tax-deductible contributions. Amounts shown of 1999 are for illustrative purposes only.

## Appendix I

### CALCULATION OF SFAS 106 TBO AMORTIZATION ADJUSTMENT

Reduction of TBO Amortization Expense Included in Annual Accrual of SFAS 106 Costs  
if VEBA 3 Contributions in 1989 & 1990 Had Been Expensed Instead of Capitalized

	<u>Amounts in \$000's</u>	<u>Reference</u>
1. 1989 VEBA 3 Contribution	117,000	D.92-12-015, 46 CPUC 2d 499, 526 (Note 1)
2. 1990 VEBA 3 Contribution	<u>91,000</u>	D.92-12-015, 46 CPUC 2d 499, 526 (Note 1)
3. Total Contributions for 1989 and 1990	208,000	Line 1 + Line 2
4. Less: VEBA 3 Contributions Included in TBO Curtailment Loss in 1993	(55,078)	Note 2, Line 19.
5. Net Reduction to TBO	<u>152,922</u>	Line 3 - Line 4
6. Intrastate Factor	0.8043	Exh. Phase 2A: 404, Attach. 7-6, 7-7, and 7-8
7. Intrastate Amount	122,995	Line 5 x Line 6
8. Amortization Period	20	D.92-12-015, Ordering Paragraph 1.c
9. Reduction in Annual TBO Amortization Expense	6,150	Line 7 divided by Line 8
10. Regulated Factor	0.9409	Exh. Phase 2A: 404, Attach. 7-6, 7-7, and 7-8
11. Expense Factor	0.9180	Exh. Phase 2A: 404, Attach. 7-6, 7-7, and 7-8
12. Reduction in Pre-Tax Intrastate Regulated Expense	<u>5,312</u>	Line 9 x Line 10 x Line 11
13. Tax Factor	0.59254	(1 - .40746 (Combined Fed. and State Tax))
14. After-Tax Intrastate Regulated Expense	<u>3,147</u>	Line 12 x Line 13
15. Cumulative Reduction to Pre-Tax TBO Amortization Expense for 1993 - 1998	<u>31,871</u>	Line 12 x 6
16. Cumulative Reduction to After-Tax TBO Amortization Expense for 1993 - 1998	<u>18,885</u>	Line 14 x 6

**Note 1:** D.92-12-015 referred to the VEBA 3 contributions as "pre-funding."

## **Appendix I**

### **Note 2: Reduction in TBO Adjustment Due to TBO Write-Off in 1993**

Pacific correctly notes in its opening comments on the Proposed Decision, at page 6, Fn. 57, that the TBO adjustment should be reduced to reflect the impact of the TBO write-off that occurred in 1993. The nature of the TBO write-off is described in Exhibit Phase 2A: 404, Part 2, pp. 7-19 to 7-21.

	<b><u>Amounts in \$000's</u></b>	<b><u>Reference</u></b>
17. Total VEBA 3 Contributions	208,000	Line 3
18. Percent Included in TBO Write-Off in 1993	26.48%	Exhibit Phase 2A: 404, Part 2, P. 7-20
19. VEBA 3 Contributions Included in TBO Write-Off in 1993	<u>55,078</u>	Line 17 x Line 18

### **Note 3: Reduction in PBOP Regulatory Asset for VEBA 3 Contributions Included in TBO Write-Off in 1993**

The majority of Pacific's PBOP Regulatory Asset was due to the TBO write-off in 1993. The TBO write-off improperly included some VEBA 3 contributions that should have been expensed in 1989 and 1990. (Exhibit Phase 2A: 404, Part 2, pp. 7-19 to 7-21.) Hence, the write-off of the Reg. Asset in 1998 should be reduced by the amount of VEBA 3 contributions improperly included in the Reg. Asset as part of the TBO write-off in 1993.

	<b><u>Amounts in 000's</u></b>	<b><u>Reference</u></b>
20. VEBA 3 Contributions Included in 1993 TBO Write-Off and PBOP Reg. Asset	55,078	Line 19
21. Intrastate Factor	0.8043	Exh. Phase 2A: 404, Attach. 7-6, 7-7, and 7-8
22. Regulated Factor	0.9409	Exh. Phase 2A: 404, Attach. 7-6, 7-7, and 7-8
23. Pre-Tax Reduction to PBOP. Reg. Asset	41,681	Line 20 x Line 21 x Line 22
24. Expense Factor	0.9180	Exh. Phase 2A: 404, Attach. 7-6, 7-7, and 7-8
25. Pre-Tax Intrastate Regulated Amount	38,264	Line 23 x Line 24
26. Tax Factor	0.59254	(1 - .40746 (Combined Fed. and State Tax))
27. After-Tax Intrastate Regulated Expense	<u>22,673</u>	Line 25 x Line 26

## **Appendix I**

### **Note 4: Effect on Annual Depreciation Expense from Reduction in TBO Amortization Expense**

Pacific capitalized a portion of its TBO amortization expense. Thus, reducing TBO amortization expense has the effect of reducing (i) the capitalized amount of TBO amortization expense, and (ii) depreciation of previously capitalized TBO amortization expense. The aforementioned reduction to Pacific's depreciation expense is offset, at least in part, by an increase in depreciation expense that would have occurred due to the capitalization (and subsequent depreciation) of a portion of the VEBA 3 contributions that should have been recognized as an expense in 1989 and 1990.

### **Note 5: Reduction to 1998 PBOP Reg. Asset Write-Off for VEBA 3 Contributions**

Decreasing Pacific's SFAS 106 accruals for the VEBA 3 contributions decreases the size of Pacific's PBOP regulatory asset in 1998 by the amount of the VEBA 3 contributions included in Pacific's SFAS 106 accruals during 1993 - 1998.

Cumulative After-Tax Reduction to PBOP Reg. Asset		
28. During 1993 - 1998 Due to Reduction to TBO Amortiz. Expense During 1993 - 1998	18,885	Line 16
After-Tax Reduction to PBOP Reg. Asset for VEBA 3 Contributions Included in the Reg. Asset as Part of the TBO Write-Off in 1993		
29.	<u>22,673</u>	Line 27
30. After-Tax VEBA 3 Contributions Included in 1998 PBOP Reg. Asset Write-Off	<u><u>41,557</u></u>	Line 28 + Line 29

## Appendix J

### INCOME TAX FLOW-THROUGH ADJUSTMENT

YEAR 1997

(\$000)

	----- Recorded FCC BASIS ----- Deferred (i.e., Normalized) Income Tax Expense					Jurisdictional Adjustments		IEMR Adjustments	Total Intrastate E+F+G+H	Change in Deferred (i.e., Normalized) Income Tax Exp. Caused by Audit Adjustment	Deferred (i.e., Normalized) Income Tax Exp. Net of Audit Adjust. I+J	Increase (Decrease) to Net Operating Income by Removing Deferred (i.e., Normalized) Income Tax Exp.
	Federal Income Tax	State Income Tax	Total A+B	Separations Factor	Intrastate C x D	Federal	State					
	A	B	C	D	E	F	G					
1. Pension	132,186	36,908	169,094	0.7774	131,455	(122,619)	(34,036)		(25,200)		(25,200)	(25,200)
2. SFAS 106	(29,474)	(8,166)	(37,640)	0.7774	(29,262)	46,155	12,968	(22,423)	7,438	4,009	11,447	11,447
3. Total	102,712	28,742	131,454		102,194	(76,464)	(21,068)	(22,423)	(17,761)	4,009	(13,753)	(13,753)

**Reference:**      Note 1      Note 2      Note 3      Note 4      Note 5      Note 6      Note 7

Note 1: Overland Exhibit Phase 2A: 402, Part 2, Attachment S9-1, p. 2.

Note 2: Overland Exhibit Phase 2A: 404, Vol. 2, Attachment 9-6, p. 4.

Note 3: Overland Exhibit Phase 2A: 404, Vol. 2, Attachment 9-6, p. 1.

Note 4: Overland Exhibit Phase 2A: 404, Attachment 9-4, p. 1.

Note 5: Overland Exhibit Phase 2A: 404, Vol. 2, Attachment 9-4, p. 2.

Note 6: Overland Exhibit Phase 2A: 404, Vol. 2, Attachment 9-6, p.1.

Note 7: See supporting schedule in Appendix K.

YEAR 1998

(\$000)

	----- Recorded FCC BASIS ----- Deferred (i.e., Normalized) Income Tax Expense					Jurisdictional Adjustments		IEMR Adjustments	Total Intrastate E+F+G+H	Change in Deferred (i.e., Normalized) Income Tax Exp. Caused by Audit Adjustment	Deferred (i.e., Normalized) Income Tax Exp. Net of Audit Adjust. I+J	Increase (Decrease) to Net Operating Income by Removing Deferred (i.e., Normalized) Income Tax Exp.
	Federal Income Tax	State Income Tax	Total A+B	Separations Factor	Intrastate C x D	Federal	State					
	A	B	C	D	E	F	G					
1. Pension	29,578	8,195	37,773	0.7713	29,134	(57,025)	(15,800)		(43,691)		(43,691)	(43,691)
2. SFAS 106	7,198	1,994	9,192	0.7713	7,090	2,357	653	(162,985)	(152,885)	156,016	3,130	3,130
3. CHCF-B	100,506	27,847	128,353	0.7713	98,999				98,999		98,999	98,999
4. Total	137,282	38,036	175,318		135,223	(54,668)	(15,147)	(162,985)	(97,577)	156,016	58,438	58,438

**Reference:**      Note 1      Note 2      Note 3      Note 4      Note 5      Note 6      Note 7

Note 1: Overland Exhibit Phase 2A: 402, Part 2, Attachment S9-1, p. 3.

Note 2: Overland Exhibit Phase 2A: 404, Vol. 2, Attachment 9-6, p. 6.

Note 3: Overland Exhibit Phase 2A: 404, Vol. 2, Attachment 9-6, p. 1.

Note 4: Overland Exhibit Phase 2A: 404, Attachment 9-4, p. 3.

Note 5: Overland Exhibit Phase 2A: 404, Vol. 2, Attachment 9-4, p. 4.

Note 6: Overland Exhibit Phase 2A: 404, Vol. 2, Attachment 9-6, p.1.

Note 7: See supporting schedule in Appendix K.

## Appendix J

**PACIFIC BELL  
INCOME TAX FLOW-THROUGH CORRECTION  
YEAR 1999  
(\$000)**

		----- Recorded FCC BASIS ----- Deferred (i.e., Normalized) Income Tax Expense					Jurisdictional Adjustments		IEMR Adjustments	Total Intrastate E+F+G+H	Change in Deferred (i.e., Normalized) Income Tax Exp. Caused by Audit Adjustment	Deferred (i.e., Normalized) Income Tax Exp. Net of Audit Adjust. I+J	<b>Increase (Decrease) to Net Operating Income by Removing Deferred (i.e., Normalized) Income Tax Exp.</b>
		Federal Income Tax	State Income Tax	Total A+B	Separations Factor	Intrastate C x D	Federal	State					
		A	B	C	D	E	F	G	H	I	J	K	L
1.	Pension	181,445	32,369	213,814	0.7725	165,178	(60,101)	(13,905)		91,171		91,171	91,171
2.	SFAS 106	(34,441)	(9,072)	(43,513)	0.7725	(33,615)	2,791	758		(30,066)	30,177	111	111
3.	CHCF-B	106,977	28,447	135,424	0.7725	104,619				104,619		104,619	104,619
4.	Total	253,981	51,744	305,725		236,182	(57,310)	(13,147)	0	165,724	30,177	195,901	195,901

**Reference:**      Note 1              Note 2                      Note 3                      Note 4              Note 5              Note 6                      Note 7

Note 1: Overland Exhibit Phase 2A: 402, Part 2, Attachment S9-1, p. 4.

Note 2: Overland Exhibit Phase 2A: 404, Vol. 2, Attachment 9-6, p. 8.

Note 3: Overland Exhibit Phase 2A: 404, Vol. 2, Attachment 9-6, p. 1.

Note 4: Overland Exhibit Phase 2A: 404, Attachment 9-4, p. 5.

Note 5: Overland Exhibit Phase 2A: 404, Vol. 2, Attachment 9-4, p. 6.

Note 6: Overland Exhibit Phase 2A: 404, Vol. 2, Attachment 9-6, p.1.

Note 7: See supporting schedule in Appendix K.

## Appendix K

### Reconciliation of Income Tax Normalization & Flow Through for Adopted Audit Adjustments Other than CHCF-B

		1997 Increase/(Decrease) to Pacific's NOI Intrastate Regulated Amounts			
		Adopted Audit Adj.	Tax Rate	Normalized Tax Effect	After-Tax Effect
<b>Adjustment Description</b>	<b>Reference</b>				
SFAS 106: VEBA 3 Transfer	Appendix H, Line 7	9,838,000	40.746%	(4,008,591)	5,829,409
<b>TOTAL</b>		9,838,000		(4,008,591)	5,829,409

		1998 Increase/(Decrease) to Pacific's NOI Intrastate Regulated Amounts			
		Adopted Audit Adj.	Tax Rate	Normalized Tax Effect	After-Tax Effect
<b>Adjustment Description</b>	<b>Reference</b>				
SFAS 106: Regulatory Asset Write Off	Appendix F, Line 10	252,751,000	40.746%	(102,985,922)	149,765,078
SFAS 106: PBOP VEBA 3 TBO Adj.	Appendix I, Line 16	31,871,000	40.746%	(12,986,158)	18,884,842
SFAS 106: VEBA 3 Curtail. Loss	Appendix I, Line 27	38,264,000	40.746%	(15,591,049)	22,672,951
SFAS 106: VEBA 3 Transfer	Appendix H, Line 14	60,012,000	40.746%	(24,452,490)	35,559,510
<b>TOTAL</b>		382,898,000		(156,015,619)	226,882,381

		1999 Increase/(Decrease) to Pacific's NOI Intrastate Regulated Amounts			
		Adopted Audit Adj.	Tax Rate	Normalized Tax Effect	After-Tax Effect
<b>Adjustment Description</b>	<b>Reference</b>				
SFAS 106: PBOP VEBA 3 TBO Adj.	Appendix I, Line 14	5,312,000	40.746%	(2,164,428)	3,147,572
Pension Trust Fund Withdrawal	Exh. Phase 2A: 409, Table 7 of 7	68,749,000	40.746%	(28,012,468)	40,736,532
<b>TOTAL</b>		74,061,000		(30,176,895)	43,884,105



## Appendix L

### Pacific Bell Summary of Recorded Normalized Income Tax Expense Phase 2A (\$000)

	Normalized Income Tax Expense for Adopted Adjustments	Normalized Income Tax Exp. for Pension and PBOP Costs Net of Adopted Adjustments	Normalized Income Tax Expense for CHCF-B	Total Recorded Normalized Income Tax For Phase 2A Issues A+B+C	Reference
	A	B	C	D	
1. <b>1997</b>	(4,009)	(13,753)	0	(17,761)	Note 1
2. <b>1998</b>	(156,016)	(40,560)	98,999	(97,577)	Note 2
3. <b>1999</b>	(30,177)	91,282	104,619	165,724	Note 3
4. <b>Total</b>	(190,201)	36,969	203,618	50,386	
	Note 4	Note 5	Note 6	Note 7	

**Note 1:** Appendix J, Table for 1997, Columns J and K, Rows 1 and 2.

**Note 2:** Appendix J, Table for 1998, Columns J and K, Rows 1, 2, and 3.

**Note 3:** Appendix J, Table for 1999, Columns J and K, Rows 1, 2, and 3.

**Note 4:** Normalized income tax expense for adopted adjustments is embedded in the adjustments to NOI shown in Schedule D, Lines 1, 2, 3, and 4.

**Note 5:** Normalized income tax expense in Column B of the above Table is embedded in the adjustment to NOI for "Income Tax Flow Through" shown in Schedule D, Line 5.

**Note 6:** Normalized income tax expense for CHCF-B in Column C of the above Table is embedded in the adjustment to NOI for "Income Tax Flow Through" shown in Schedule D, Line 5.

**Note 7:** Row 1, Column D, of the above Table sums to Appendix J, Table for 1997, Column I, Rows 1 and 2. Row 2, Column D, of the above Table sums to Appendix J, Table for 1998, Column I, Rows 1, 2, and 3. Row 3, Column D, of the above Table sums to Appendix J, Table for 1999, Column I, Rows 1, 2, and 3.